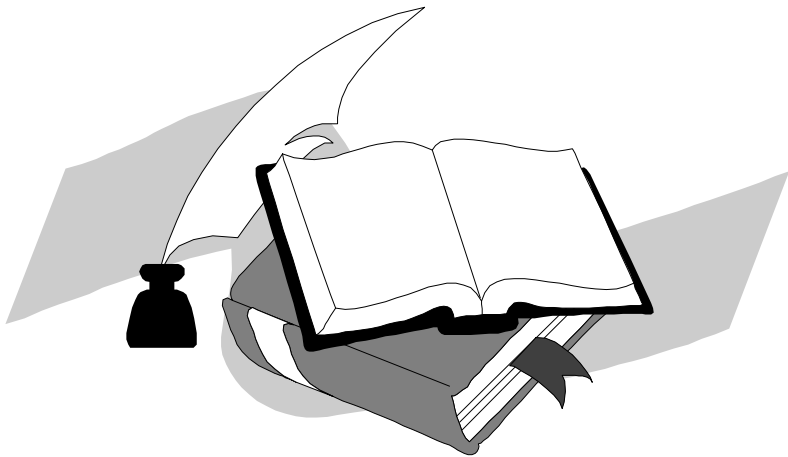

FY 1999

STATE OF DELAWARE

GOVERNOR'S RECOMMENDED BUDGET



The Governor's Recommended Budget is comprised of both summary (narrative) and detailed (numeric) information at statewide, department, appropriation unit (APU) and internal program unit (IPU) levels.

Volume I of the recommended budget contains the narrative presentation including the highlights.

Volume II contains the detailed numeric data at each level in the form of Budget Development and Information System (BDIS) reports including recommendations. Statewide financial statements appear in the Appendix.

Please refer to the Table of Contents for page location of specific department information or financial statements.

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FINANCIAL OVERVIEW

RECOMMENDED APPROPRIATIONS

The Governor's Recommended Fiscal Year 1999 total operating budget is \$1,870.9 million. In addition, the Governor has set aside \$28.0 million for Grants-in-Aid. Total recommended Fiscal Year 1999 General Fund appropriations are \$2,065.6 million, including \$166.7 million in General Funds allocated to the Bond and Capital Improvements Act. Total appropriations of \$2,065.6 million represent 97.8 percent of projected net Fiscal Year 1999 revenue, plus carryover funds.

The Governor's Recommended Fiscal Year 1999 Bond and Capital Improvements Act totals \$415.0 million. Of this amount, \$156.3 million is recommended for state capital projects, \$121.7 million is recommended for transportation projects, \$104.0 million is recommended for the Infrastructure Investment Plan, and \$33.0 million is recommended for the Twenty-First Century Fund. Of the \$156.3 million recommended for state capital projects, \$99.3 million is G.O. Bond Authorization, \$55.7 million is General Fund appropriations for pay-as-you-go projects, and \$1.3 million is recommended in other funds.

Fiscal Year 1999 appropriations are based on Delaware Economic and Financial Advisory Council (DEFAC) General Fund revenue and expenditure estimates of December 15, 1997. The Governor has proposed adjustments to these figures which decrease the DEFAC estimates by \$12.5 million in Fiscal Year 1998 and \$53.4 million in Fiscal Year 1999. These adjustments are as follows:

- ◆ The Governor has recommended a personal income tax cut across all rates, including a reduction in the top rate from 6.9 percent to 6.7 percent. This initiative increases the standard deduction amount, simplifies filing procedures, and drops more than 10,000 of the lowest taxpayers from the tax rolls altogether. Retroactive to January 1, 1998, this tax cut is estimated to reduce the Fiscal Year 1998 DEFAC revenue estimate by \$12.5 million and the Fiscal Year 1999 DEFAC estimate by \$51.1 million.
- ◆ The Governor's Recommended Budget also includes a reduction in the gross receipts tax which will cut taxes for all businesses --- particularly small business --- as well as remove roughly 3,000 current taxpayers from the rolls and simplify reporting requirements. This initiative is estimated to reduce the Fiscal Year 1999 DEFAC estimate by \$2.3 million.

REVENUE FORECASTS

DEFAC has projected net revenue collections for Fiscal Year 1998 will be \$1,953.2 million (9.8 percent increase over Fiscal Year 1997) and \$2,038.8 million (4.4 percent increase over Fiscal Year 1998) for Fiscal Year 1999. The highlights of the forecast include:

- ◆ **Personal Income Tax** - This category accounts for approximately 38.3 percent of net Fiscal Year 1999 General Fund revenues. The tax is closely modeled after federal income tax law, is progressive in nature, and currently ranges from zero to 6.9 percent. Net collections (after refunds) are projected to total \$729.7 for Fiscal Year 1998 (10.1 percent increase) and \$780.1 million for Fiscal Year 1999 (6.9 percent increase).
- ◆ **Franchise Tax** - This category accounts for approximately 21.0 percent of net Fiscal Year 1999 General Fund revenues. This tax is imposed upon domestic corporations incorporated in Delaware and is based on either the outstanding shares of stock of a corporation or on gross assets. Collections for Fiscal Year 1998 are projected to be \$400.0 million (11.8 percent increase) and \$428.0 million for Fiscal Year 1999 (7.0 percent increase).
- ◆ **Business and Occupational Gross Receipts Tax** - This revenue category accounts for 6.3 percent of net Fiscal Year 1999 General Fund revenues. This tax is imposed on the gross receipts of most businesses with tax rates ranging from .096 percent to 1.92 percent, depending upon the category of the business activity. Collections for Fiscal Year 1998 are projected to be \$124.0 million (6.8 percent increase) and \$128.7 million in Fiscal Year 1999 (3.8 percent increase).
- ◆ **Lottery** - This category accounts for approximately 5.8 percent of net Fiscal Year 1999 General Fund revenues. For Fiscal Year 1998, collections are projected to total \$110.0 million (14.6 percent increase) and \$117.8 million for Fiscal Year 1999 (7.1 percent increase). The large growth in this category over the past several years is primarily attributable to the implementation of video lottery operations. In June of 1994, the General Assembly authorized the installation of video lottery machines at the three harness and thoroughbred horse racetracks in the State.

FINANCIAL OVERVIEW

- ◆ **Corporate Income Tax** - This revenue category accounts for approximately 5.0 percent of net Fiscal Year 1999 General Fund revenues. This tax is imposed on every domestic and foreign corporation doing business in Delaware, depending upon the amount of a corporation's taxable income that is apportioned and allocated to Delaware. Net collections for Fiscal Year 1998 are projected to be \$93.0 million (6.1 percent increase) and \$101.2 million for Fiscal Year 1999 (8.8 percent increase).
- ◆ **Bank Franchise Tax** - This category accounts for approximately 4.8 percent of net Fiscal Year 1999 General Fund revenues. This tax is imposed on the net income of banks, trust companies and savings/building and loan associations and their subsidiaries. Collections for Fiscal Year 1998 are projected to be \$96.6 million (13.8 percent increase) and \$98.6 million for Fiscal Year 1999 (2.1 percent increase).

GOVERNOR'S POLICY OVERVIEW

During the second term of Governor Carper's Administration, resources will continue to be targeted for the implementation of five major objectives. These are:

- ◆ Improving Education
- ◆ Fighting Crime
- ◆ Reforming the Welfare System and Strengthening Delaware Families
- ◆ Cutting Taxes and Ensuring Fiscal Responsibility
- ◆ Promoting Economic Development and Creating Jobs

The Governor's Fiscal Year 1999 Financial Recommendations support these objectives through targeted strategies and investments as follows:

IMPROVING EDUCATION

The Governor's Recommended Budget and Capital Improvements Act includes targeted initiatives to support the Administration's goals of improving Public Education in Delaware.

Reducing class size in core academic areas

- ◆ The Governor's Recommended Budget includes \$6.1 million to reduce class size in all grades (K-12) in core academic subjects. This initiative increases Division I teacher funding to local school districts at the K-3 level to provide a teacher for every 15 regular students. Funding will be increased for grades 4-12 to provide districts with a teacher for every 16.3 regular students. This initiative, coupled with a legislative proposal, is designed to limit the maximum class sizes for all grades in the four core academic subjects --- math, science, English and social studies. In grades K-6, the proposed maximum student-to-teacher ratio will be 22 to 1 and in grades 7-12, the proposed maximum student-to-teacher ratio will be 28 to 1.

Providing district flexibility and ensuring an effective workforce

- ◆ The Governor's Recommended Budget includes \$1.5 million for a guaranteed unit count initiative. This new initiative will allow districts to take advantage of a one-year, hold-harmless provision which will allow them to hire at least the same number of teachers as the previous year -- allowing districts to recruit new teachers earlier in the school year.

Enhancing educational technology

- ◆ The Governor's Recommended Budget includes \$4.5 million for the acquisition and customization of a statewide integrated school management system. This funding, coupled with educational technology investments in the Twenty-First Century Fund and the Infrastructure Investment Plan, will bring the latest technology into classrooms and prepare students to meet the workforce challenges in the next century.

Implementing rigorous statewide standards in the core academic subjects of math, science, English and social studies

- ◆ The Governor has recommended an additional \$3.0 million to provide students with extra time in the classroom to meet state achievement standards. This enhanced funding, along with existing resources, will provide up to 20 additional days for summer school, Saturday school or after-school instructional time for the lowest-achieving students across all grades. This additional \$3.0 million will be focused on students in grades 7-12.

Focusing on prevention and school discipline

- ◆ An additional \$550.0 has been recommended to expand school discipline programs. This enhanced funding will enable an additional ten Family Crisis Therapists or State Police School Resource Officers to be placed in schools with high populations of at-risk students.
- ◆ The Governor's Recommended Budget includes \$1,528.8 to allow an additional 289 four-year-olds to participate in Head Start programs. Coupled with existing resources, this funding is estimated to complete the Governor's goal of enabling every eligible four-year-old living in poverty to participate in Head Start.
- ◆ The Governor has also recommended \$221.4 to Jobs for Delaware Graduates (JDG). The goal of this program is to help at-risk students graduate from school and find jobs.

FIGHTING CRIME

Adding prison beds and security staff to keep dangerous criminals off our streets

- ◆ The Governor's Recommended Capital Budget includes \$8.6 million for year four of a statewide construction program to provide an additional 1,500

GOVERNOR'S POLICY OVERVIEW

beds statewide. The funds recommended will complete construction of a new 600-cell, maximum-security unit at the Delaware Correctional Center.

- ◆ To enhance staffing and security at new and existing institutions and to improve the supervision of offenders on probation, the Governor's Recommended Budget includes an additional 187 security positions for the Department of Correction. These positions are necessary to staff the new Administration Segregation Unit at the Delaware Correctional Center and to provide for supervision of boot camp offenders now on probation. In addition, funds will be utilized to reduce Probation and Parole caseloads on SENTAC Level III supervision from current officer to offender ratios of 1:41 to between 1:30 and 1:35.

Using technology to enhance security

- ◆ The Governor's Recommended Budget includes additional technology resources for year-three of an offender tracking information system in the Department of Correction. When fully operational, this computer system will allow the Department to electronically track important information concerning inmates, including security classification, court appearances and scheduled treatment programs. The total cost of the project is estimated to be between \$7.5 million and \$8.3 million and is expected to be fully operational in the year 2000.

Enhancing police protection to keep our streets and neighborhoods safe

- ◆ The Governor's Recommended Capital Improvements Act includes \$1.5 million to complete the statewide 800 MHz communications system. This initiative will be operational in New Castle and Kent counties this spring with Sussex soon to follow. This state of the art system will enable fire, ambulance, state and municipal police organizations to communicate more clearly and reliably statewide.
- ◆ The Governor has recommended an additional \$1.6 million in the Department of Public Safety to replace computer equipment, enabling the State of Delaware to access the future National Crime Information Center (NCIC 2000) database.

REFORMING WELFARE AND STRENGTHENING DELAWARE FAMILIES

In Fiscal Year 1996, the Governor unveiled an aggressive welfare reform agenda designed to create opportunities for welfare recipients to become self-sufficient through placement in private-sector jobs. The approach the Governor has selected is multi-departmental and involves the private sector.

Providing employment and support services to help Delawareans become self-sufficient

- ◆ The Governor's Recommended Budget benefits from a reduction of \$8.6 million due to the success of Delaware's Welfare Plan, "A Better Chance." A comprehensive national study unveiled in January of 1998 showed that Delaware's ABC participants had a 24 percent higher employment rate, 16 percent higher earnings, and 18 percent lower average welfare payments than clients covered by traditional AFDC program requirements. Further, as of January 1998, the total ABC caseload has dropped by more than 27 percent since 1994.

Investing in the health care needs of Delawareans

- ◆ The Governor's Recommended Budget includes \$3.0 million to expand health insurance coverage for uninsured children in Delaware. This initiative, coupled with additional federal resources, will enable Delaware to insure up to 10,000 additional children under 200 percent of poverty. This initiative, taken with private insurance and Medicaid services, will enable 93 percent of all children living in Delaware to be insured.
- ◆ The Governor has recommended \$293.7 and seven positions to develop an additional Child Mental Health treatment team. This initiative is designed to manage a growing population of young people in need of mental health and substance abuse services.
- ◆ The Governor's Recommended Budget includes an additional \$252.5 for School-Based Health Centers to fully fund a center recently opened at Woodbridge; provide start-up funding for three new centers to be located at Sussex Central, Indian River and Brandywine; and cover inflation costs at existing sites. This enhanced funding, along with existing resources, will allow for a center in every Delaware high school that wants one. This recommended funding will bring the total appropriation for 26 wellness centers to approximately \$3.6 million.

GOVERNOR'S POLICY OVERVIEW

- ◆ An additional \$1.0 million has been recommended in the Department of Health and Social Services for community-based residential placements. These enhancements will enable mentally retarded individuals to remain in the community, rather than in an institutional setting, while receiving the services they need.

Enhancing social services for working families

- ◆ Additional funding has been recommended to serve an additional 1,400 low-income children with subsidized child care and to provide a child care provider rate increase in New Castle County. This enhancement will enable the State to pay for subsidized child care at 75 percent of the local market rate.
- ◆ As part of the Infrastructure Investment Plan, an additional \$8.0 million has been recommended for the Housing Development Fund, enabling the State to maximize federal tax credits for new, low-income housing. The Housing Development Fund leverages an additional \$10 from non-State sources for every dollar contributed by the State.

Ensuring quality nursing home and child care services

- ◆ The Governor's Recommended Budget includes two new positions for the Office of Licensure to conduct unannounced inspections and seven new positions for the Ombudsman Office to effectively respond to and investigate nursing home complaints. The Department of Health and Social Services will utilize these additional resources to ensure the quality of nursing home care in Delaware and to increase inspections at all facilities.
- ◆ To help ensure more compliance with statewide regulations of child care sites, an additional position within the Department of Services for Children, Youth and Their Families has been recommended to conduct unannounced inspections at child care facilities throughout Delaware.

CUTTING TAXES AND ENSURING FISCAL RESPONSIBILITY

Cutting taxes

- ◆ The Governor is proposing to reduce personal tax rates across the board, including a reduction in the top rate from 6.9 percent to 6.7 percent and eliminating more than 10,000 of the lowest income taxpayers from the State tax rolls altogether. This initiative, preceded by personal income tax cuts in

1996 and 1997, will result in an average rate reduction of nearly nine percent from 1993 income tax levels.

- ◆ The Governor's Recommended Budget includes a proposal to cut and equalize the gross receipts tax. This initiative is designed to cut taxes for all businesses; remove nearly 3,000 current taxpayers from the tax rolls; and simplify reporting requirements.

PROMOTING ECONOMIC DEVELOPMENT AND CREATING JOBS

Promoting economic development

- ◆ The Governor is proposing a new \$104.0 million Infrastructure Investment Plan to continue key long-term investments in education, the environment, and the economy. Provisions include open space and farmland preservation, educational technology, housing, transportation and Port of Wilmington investments.
- ◆ In the Bond and Capital Improvements Act, the Governor has recommended total authorizations of \$33.0 million from the Twenty-First Century Fund. These recommendations will complete the Governor's original investment plan as detailed during Fiscal Year 1996. These final investments include additional funding for open space, farmland preservation, state parks, educational technology, and advanced technology business development.

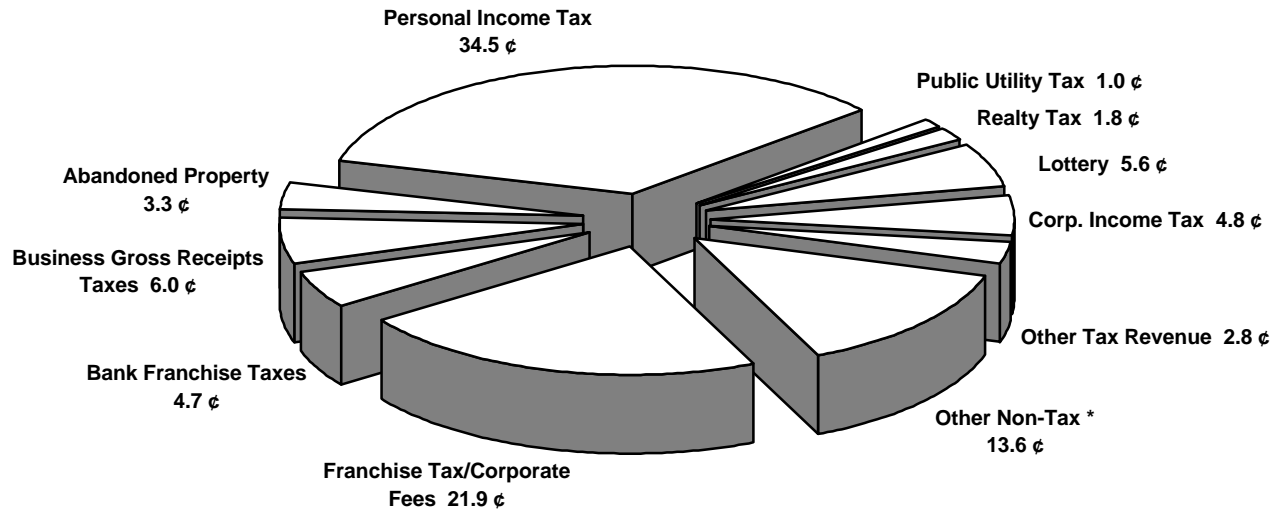
Creating jobs

- ◆ The Governor has recommended an additional \$10.0 million for the Delaware Economic Development Office's Strategic Fund. The Strategic Fund promotes economic development by serving as a flexible source of funds to be used for retaining and enhancing the state's existing job base, as well as the recruitment of new employers. Since 1993, the Delaware Economic Development Office has used this fund to create or retain over 17,000 jobs.

FINANCIAL SUMMARY

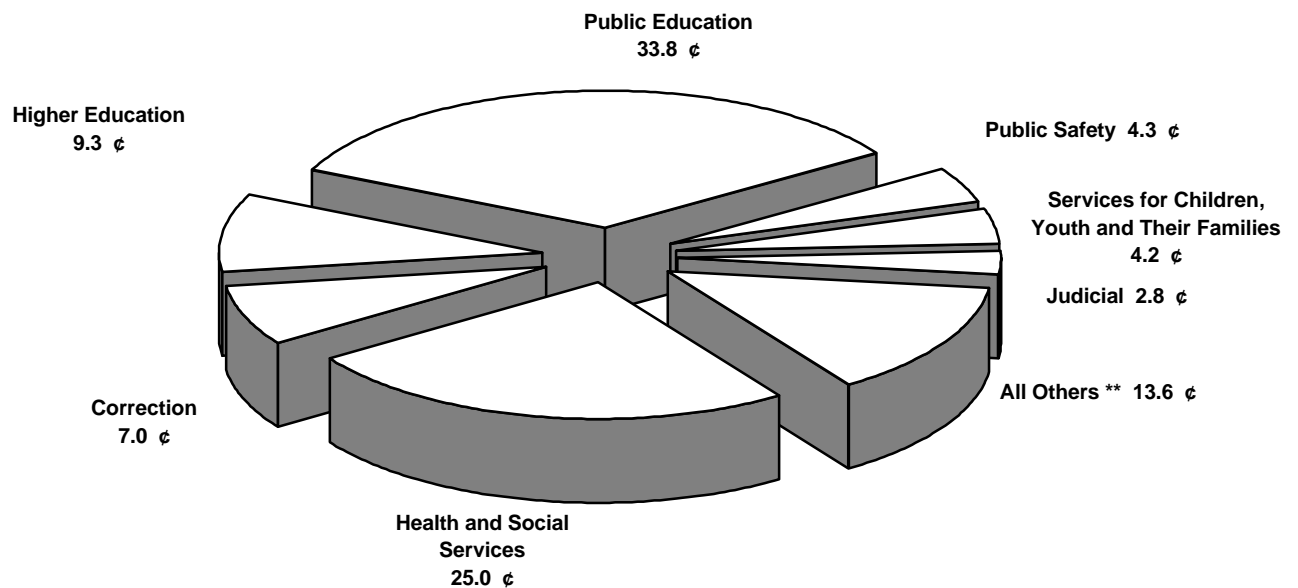
BUDGET DOLLAR GOVERNOR'S RECOMMENDED BUDGET Fiscal Year 1999

Sources of Funds (net of refunds)



* Includes Prior Year Unencumbered Cash Balance

Appropriations



♦ ** Includes One-Time Items

FINANCIAL SUMMARY

Estimated General Fund Revenue

The Delaware Economic and Financial Advisory Council, at the December 15, 1997 meeting, adopted a Fiscal Year 1999 revenue estimate of \$2,038.8 million.

Revenue Categories	(\$ MILLIONS)		
	1997 Actual	1998 Forecast	1999 Forecast
Personal Income Taxes	\$ 766.1	\$ 838.0	\$ 895.9
Corporation Income Taxes	104.5	114.0	117.2
Franchise Taxes	357.7	400.0	428.0
Business and Occupational Gross Receipt Taxes	116.1	124.0	128.7
Hospital Board and Treatment Sales	77.2	80.4	83.6
Dividends and Interest	17.5	19.6	19.5
Public Utility Taxes	22.5	21.4	22.1
Cigarette Taxes	21.9	21.9	22.1
Inheritance and Estate Taxes	30.5	35.0	24.0
Realty Transfer Taxes	37.6	37.6	37.6
Insurance Taxes	28.2	29.4	30.4
Abandoned Property	71.1	84.0	70.0
Alcoholic Beverage Taxes	10.9	9.8	10.0
Business and Occupational License Fees	4.6	4.6	4.7
Corporate Fees	29.5	32.8	35.1
Bank Franchise Taxes	84.9	96.6	98.6
Court Fines and Costs	2.8	2.8	3.0
Public Accommodation Taxes	7.1	7.9	8.5
Lottery Sales	96.0	110.0	117.8
Other Revenue by Department	52.9	49.0	50.1
Total Receipts	\$ 1,939.4	\$ 2,118.8	\$ 2,206.9
LESS: Revenue Refunds	(160.2)	(165.6)	(168.1)
Subtotal	\$ 1,779.2	\$ 1,953.2	\$ 2,038.8
LESS: Personal Income Tax Adjustment		(12.5)	(51.1)
Gross Receipts Tax Adjustment			(2.3)
TOTAL	\$ 1,779.2	\$ 1,940.7	\$ 1,985.4

FINANCIAL SUMMARY

GENERAL FUND BUDGET BY DEPARTMENT BY FISCAL YEAR

	FISCAL YEAR 1998*	FISCAL YEAR 1999* RECOMMENDED
Legislative	\$ 9,926.5	\$ 10,101.7
Judicial	49,338.7	51,765.9
Executive	** 66,249.6	** 70,914.3
Other Elective	30,191.2	34,918.2
Legal	19,783.4	20,890.1
State	11,157.7	11,664.8
Finance	14,684.7	15,128.1
Administrative Services	36,685.1	37,610.1
Health and Social Services	457,445.2	466,819.4
Children, Youth and Their Families	76,586.9	79,522.8
Correction	116,244.6	130,975.6
Natural Resources and Environmental Control	31,301.6	34,038.4
Public Safety	74,490.1	80,474.9
Transportation	--	1,122.4
Labor	5,341.1	5,245.8
Agriculture	4,839.0	4,722.6
Elections	2,164.7	2,563.6
Fire	3,075.2	3,261.3
National Guard	2,541.9	2,673.7
Exceptional Citizens	86.4	87.4
Higher Education	168,028.4	174,176.6
Public Education	609,620.3	632,252.5
STATE TOTAL	\$ 1,789,782.3	\$ 1,870,930.2

* Does not include funding for Grants-in-Aid and cash to the Bond and Capital Improvements Act.

** Includes One-Time Items to be allocated statewide.